



# **Report of the auditor-general to the North West provincial legislature and the council on the Ratlou Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Ratlou Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Revenue from exchange transactions**

6. I was unable to obtain sufficient appropriate audit evidence for an amount of R3 076 299 disclosed as council write offs included as revenue from exchange transactions. This amount related to adjustments made by the municipality to receivables and payables, but no proper records exist for these adjustments due to an inadequate system of internal controls. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from exchange of transactions of R748 218, receivables from non-exchange transactions of R13 135 573, trade payables of R1 133 164 or an amount disclosed as council write-offs of R3 076 299 included as revenue from exchange transactions in the financial statements was necessary.

### **Qualified opinion**

7. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Ratlou Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA.

### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unauthorised, irregular and fruitless and wasteful expenditure**

9. As disclosed in note 41 to the financial statements, unauthorised expenditure in respect of prior years of R28 323 519 had not yet been dealt with in accordance with section 32 of the MFMA.
10. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R23 000 was incurred in the current year and fruitless and wasteful expenditure from prior years of R176 692 had not yet been dealt with in accordance with section 32 of the MFMA.
11. As disclosed in note 43 to the financial statements, irregular expenditure of R4 970 745 was incurred in the current year and irregular expenditure from prior years of R60 299 014 not yet been dealt with in accordance with section 32 of the MFMA.

### **Material losses**

12. As disclosed in note 28 to the financial statements, material impairments of R2 510 608 and R34 406 213 were incurred due to the provision and write off of irrecoverable consumer debtors respectively.

### **Restatement of corresponding figures**

13. As disclosed in note 47 to the financial statements, the corresponding figures for 2015 have been restated as a result of errors discovered during 2016 and a reclassification of amounts disclosed in the financial statements of the Ratlou Local Municipality and for the year ended, 2015.

## **Additional matter**

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Development priority: Local economic development on pages x to x
- Development priority: Infrastructure development and basic service delivery on pages x to x

18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

20. I did not identify any material findings on the usefulness and reliability of the reported performance information on any of the selected development priorities of the municipality.

## **Additional matters**

21. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:

## **Achievement of planned targets**

22. Refer to the annual performance report on page(s) XX to XX and XX to XX for information on the achievement of the planned targets for the year.

## **Adjustment of material misstatements**

23. I identified material misstatements in the annual performance report submitted for auditing on



the reported performance information for development priorities for Local economic development and Infrastructure development and basic service delivery. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

### **Compliance with legislation**

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Strategic planning and performance management**

25. The performance management system and related controls were inadequate as the described processes of performance review and reporting and how it is conducted, organised and managed were not implemented, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.
26. The key performance indicators set by the municipality did not include indicators on percentage of households with access to basic level of water and sanitation as required by section 43(2) of the MSA and the regulation 10(a) of the Municipal planning and performance management regulations.

### **Annual financial statements**

27. The financial statements submitted for auditing were not prepared in accordance in all material respects with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion

### **Procurement and contract management**

28. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

### **Consequence management**

29. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

### **Expenditure management**

30. Reasonable steps were not taken to prevent irregular and fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA.

### **Asset management**

31. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

## **Revenue management**

32. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

## **Environmental management**

33. The municipality did not exercise its legislative and executive authority of managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment as required by section 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.
34. The municipality operated one of its solid waste disposal sites without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA) and section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA).

## **Internal control**

35. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on compliance with legislation included in this report.

## **Leadership**

36. The leadership did not adequately exercise appropriate oversight over financial and performance reporting, compliance monitoring and related internal controls while decisive actions to address risks relating to the achievement of complete and accurate financial and performance reporting were not effectively implemented.

## **Financial and performance management**

37. Management's internal controls and processes over the preparation and presentation of financial statements and performance information were not adequate to ensure that the financial statements and performance report were free from material misstatements. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored and control measures implemented. Policies and procedures did not always adequately guide financial and performance activities as well as action plans to address prior year audit findings were not adequately implemented and monitored.

## **Governance**

38. The risks identified during the risk assessment process relating to financial and performance reporting and compliance with laws and regulations were not adequately monitored by management resulting in weaknesses in the internal control environment. The audit committee and the internal audit unit were not effective and functional throughout the year.

*AUDITOR GENERAL*

Rustenburg

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

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